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ABSTRACT

Given recent changes to child welfare financing brought about by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, there is a need to track spending for child welfare services. This report documents states' total child welfare spending from federal, state, and local sources in state fiscal year (SFY) 1998; changes in total spending since SFY 1996; changes in federal, state, and local spending since SFY 1996; states' spending on contracted services in SFY 1998; and how funds were used for out-of-home placements, adoption, administration, or other services. Data come from the 1997 and 1999 Child Welfare Surveys. States provided expenditure data for programs, case management, administration, and operation of child welfare systems. These data included staffing and administrative expenses and expenditures on services provided by other agencies under contract to the child welfare agency. States also provided expenditure data from federal, state, and local resources and categorized how funds were used. Overall, states expended at least $15.6 billion on child welfare services in SFY 1998; states were increasing their claims for Title IV-E funds; little funding was targeted for prevention services; states' heavy reliance on nontraditional federal funds for child welfare continued; within out-of-home placements, the focus of state-only funds had shifted; reliance on local

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spending was increasing; and states expended at least $3.4 billion on contracted services in SFY 1998. (SM)

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The Cost of Protecting Vulnerable Children II: What Has Changed since 1996?

Roseana Bess
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Occasional Paper Number 16

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Assessing the New Federalism
An Urban Institute Program to Assess Changing Social Policies

The Cost of Protecting Vulnerable Children II: What Has Changed since 1996?

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This report is part of the Urban Institute's *Assessing the New Federalism* project, a multiyear effort to monitor and assess the devolution of social programs from the federal to the state and local levels. Alan Weil is the project director. The project analyzes changes in income support, social services, and health programs. In collaboration with Child Trends, the project studies child and family well-being.

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The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

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About the Series

Assessing the New Federalism is a multiyear Urban Institute project designed to analyze the devolution of responsibility for social programs from the federal government to the states, focusing primarily on health care, income security, employment and training programs, and social services. Researchers monitor program changes and fiscal developments. In collaboration with Child Trends, the project studies changes in family well-being. The project aims to provide timely, nonpartisan information to inform public debate and to help state and local decisionmakers carry out their new responsibilities more effectively.

Key components of the project include a household survey, studies of policies in 13 states, and a database with information on all states and the District of Columbia, available at the Urban Institute's Web site (http://www.urban.org). This paper is one in a series of occasional papers analyzing information from these and other sources.

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Executive Summary

The nation's child welfare system is the safety net for children who have been abused or neglected. Child welfare services encompass a range of activities, including investigating reports of abuse and neglect, counseling children and family members to keep the family intact, protecting children who may need to be temporarily or permanently removed from home, and working with children and parents to reunify families or to seek a permanent placement for the children if reunification is not possible. Given recent changes to child welfare financing and service delivery brought about by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the Adoption and Safe Families Act of 1997, there is a need to track spending for child welfare services to determine how these changes have affected and will continue to affect the services children and families receive.

This report documents states' total child welfare spending from federal, state, and local sources in state fiscal year (SFY) 1998; changes in total spending since SFY 1996; changes in federal, state, and local spending since SFY 1996; states' spending on contracted services in SFY 1998; and how these funds were used for out-of-home placements, adoption, administration, or other services.

Data and Methods

This report uses data from the 1997 and 1999 Child Welfare Surveys to examine child welfare spending in SFYs 1996 and 1998. The Urban Institute Child Welfare Survey used a standardized definition of child welfare expenditures to make the data as comparable as possible across states. States were asked to provide the expenditure data for the programs, case management, administration, and operation of their child welfare systems. These data included staffing and administrative expenses and expenditures on services provided by another agency under contract to the child welfare agency. States were asked to provide expenditure data from federal, state, and local resources and to categorize how the funds were used (e.g., for out-of-home placements or adoption).

Findings

- **States expended at least $15.6 billion on child welfare services in SFY 1998.** Total spending on child welfare services increased 3 percent between SFY 1996 and SFY 1998.
- **Child welfare funding is unstable.** Several states reported drastic increases or decreases in spending from federal, state, or local sources. One reason for these changes may be reporting issues. Another reason is the volatility of child welfare funding. Child welfare spending is reactive. A state's spending may change not only because of changes in caseload size, but also because of state legislative mandates, gubernatorial changes, state initiatives, court orders or consent decrees, or as a reaction to a well-publicized child death from abuse or neglect.
- **Welfare reform's impact on child welfare financing is not clear.** Although individual funding streams may have been affected by welfare reform, the overall impact on child welfare funding is not known.
- **States are increasing their claims for title IV-E funds.** Spending from title IV-E increased 22 percent, while the IV-E-eligible caseload is estimated to have increased 11 percent during the same period.
- **Little funding continues to be targeted for prevention services.** While at least $1.5 billion from all sources was expended on other services, which includes prevention services, we identified $9.4 billion that was spent on maintenance payments and services for children in out-of-home placements.
- **States' heavy reliance on nontraditional federal funds for child welfare continues.** Expenditures for child welfare services from the Temporary Assistance for Needy Families block grant, the Social Services Block Grant, and Medicaid represent 39 percent of all federal funds expended in SFY 1998. States expended a combined total of $2 billion from these funds.
- **Within out-of-home placements, the focus of state-only funds seems to have shifted.** In SFY 1996, states' expenditures on residential care, which is the most costly type of out-of-home care, were greater than on family foster care. In SFY 1998, it appears spending for family foster care increased, while spending on residential care decreased.
- **Reliance on local spending appears to be increasing.** Local spending increased 19 percent between SFY 1996 and SFY 1998, although local spending still constitutes only 13 percent of total spending.
- **States expended at least $3.4 billion on contracted services in SFY 1998.** Expenditures on contracted services represented 36 percent of total child welfare expenditures.

The Cost of Protecting Vulnerable Children II: What Has Changed since 1996?

Introduction

The nation's child welfare system is the last safety net for children who have been abused or neglected. Child welfare services encompass a range of activities, including investigating reports of abuse and neglect, counseling children and family members to keep the family intact, protecting children who may need to be temporarily or permanently removed from home, and working with children and parents to reunify families or to seek a permanent placement for the children (e.g., adoption) if reunification is not possible. Given recent changes to child welfare financing and service delivery brought about by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and the Adoption and Safe Families Act of 1997 (ASFA), as well as the proposed changes to child welfare funding introduced in Congress, there is a need to track spending for child welfare services to determine how these changes have and will continue to affect the services children and families receive.

In 1997, the Urban Institute gathered expenditure data from all 50 states and the District of Columbia on child welfare spending in state fiscal year (SFY) 1996.[1] These data provided baseline information on what was occurring before welfare reform. The results of this first survey were released in early 1999 (Geen, Waters Boots, and Tumlin 1999; Waters Boots et al. 1999). Our 1997 survey showed that total child welfare spending (federal, state, and local resources) in SFY 1996 was $14.6 billion,[2] and that states' use of funds not dedicated for child welfare services (Emergency Assistance, Medicaid, and Social Services Block Grant) was previously underestimated. We also found that the use of federal funding streams, particularly these nondedicated funds, varied significantly by state, and that there was little funding for prevention services. In July 1999, we collected new data to examine changes in child welfare spending that may have occurred after the implementation of welfare reform. This paper presents the findings of the 1999 Urban Institute Child Welfare Survey, which collected SFY 1998 expenditure data.

Federal Changes That May Affect Child Welfare Spending

PRWORA is the legislation that changed our nation's welfare system by ending the entitlement to cash assistance and giving states considerable flexibility in the assistance programs they operate. PRWORA made few direct changes to the nation's child welfare system; however, it did make changes to four federal funding streams that are used by child welfare. These changes may affect the delivery of child welfare services. PRWORA eliminated the Emergency Assistance (EA) program, which states were permitted to use for an array of child welfare activities including prevention, family preservation, foster care, family reunification, and parenting education. Funds from the EA program were included in the Temporary Assistance for Needy Families (TANF) block grant. The Social Services Block Grant (SSBG), which provides funding for a variety of child welfare-related activities including preventive, protective, foster care, and adoption services, was reduced by 15 percent. In addition, PRWORA eliminated the individual functional assessment as a mechanism for determining eligibility for the federal Supplemental Security Income (SSI) program, thus making it more difficult for children to receive these funds.[3] Moreover, PRWORA removed the restriction on the use of title IV-E funds for for-profit institutions, thereby allowing states to use IV-E funds for eligible children placed in for-profit institutions.

The Adoption and Safe Families Act of 1997 (ASFA) significantly changed the goals for the delivery of child welfare services. ASFA's goal is to move children out of foster care more quickly, shortening their lengths of stay, and to find them suitable permanent placements. These placements could consist of returning the child to the home from which he or she was removed, placing the child with a legal guardian, or placing the child in an adoptive home. These placement options require funding to provide the necessary services and case management to meet the appropriate goal for the child; however, the time frame in which permanency must occur has been shortened. States must file petitions to terminate parental rights for children who have been in foster care for 15 of the most recent 22 months, with exceptions allowed on a case-by-case basis. This means, for example, that child welfare systems must make reasonable efforts to provide the necessary services to the parent so the child can be reunified with his or her family within 15 months, if appropriate. The financial implication of this change is higher level investment in permanency planning, collaborative initiatives, and case management.

Furthermore, there is much interest at the state and federal levels in reforming the financing structure for child welfare. Policymakers, researchers, and advocates have all criticized the existing federal child welfare financing structure as being inflexible and too heavily focused on out-of-home placements at the expense of prevention. Because federal funds for out-of-home placements are open-ended while prevention funds are capped, many have argued that states have little financial incentive to move children out of foster care into more permanent placements. Congress is currently debating more changes as it considers a block grant for child welfare services, which would give the states more flexibility in the use of certain federal funds.

Methodology[4]

In 1999, the Urban Institute conducted a second wave of the Child Welfare Survey, collecting SFY 1998 expenditure data. This paper documents states' total child welfare spending in SFY 1998; changes in total spending since SFY 1996; changes in federal, state, and local spending; states' spending on contracted services; and categorizes how these funds were used. Comparing child welfare expenditures across states is difficult for two reasons. First, child welfare agencies do not always serve the same populations. In some states, the child welfare agency is responsible for delinquent, homeless, and runaway youth, in addition to abused and neglected children. In other states, the child welfare agency may be responsible only for abused and neglected children. Second, states may not be able to document all the spending from the various funding streams available for child welfare. In 1998, there were almost 40 federal programs that financed child welfare services, in addition to state and local resources. By 2000, this number declined to 30 federal programs (U.S. House of Representatives 1998, 2000). Federal sources funding child welfare services include block grants that may be used for multiple purposes other than child welfare by multiple agencies, and states cannot always determine what portion was used for child welfare. In addition, many child welfare agencies receive funds from the state that combine state and federal funds, and they are unable to separate the funding sources. Some states also have difficulty reporting local spending accurately because localities may not be required to report spending to the state.

To adjust for this variation, the Urban Institute survey used a standardized definition of child welfare expenditures to make the data as comparable as possible across states. States were asked to provide the expenditure data for the programs, case management, administration, and operation of their child welfare systems. These data included staffing and administrative expenses and expenditures on services provided by another agency under contract to the child welfare agency. States were instructed to exclude capital costs, appropriated but unexpended funds, and expenditures on services that the child welfare agency may be responsible for, but that are not included in our definition of child welfare services, such as services for delinquent youth.

We defined child welfare services as "the following services that are administered by the child welfare agency: services for children and families to prevent abuse or neglect; family preservation services; child protective services (intake and family assessment, investigation, and case management); in-home services; out-of-home placements; and adoption services." Expenditures for out-of-home placements and adoption include the costs associated with maintenance payments, administration, and supportive services for children in out-of-home or adoptive placements. Expenditures reported for administration do not include administrative costs associated with children in out-of-home or adoptive placements, but do include the administrative costs associated with child protective services (e.g., staff salaries and overhead for intake and investigation). We defined other services as those services not included in the definition of out-of-home placement, adoption, or administration—including

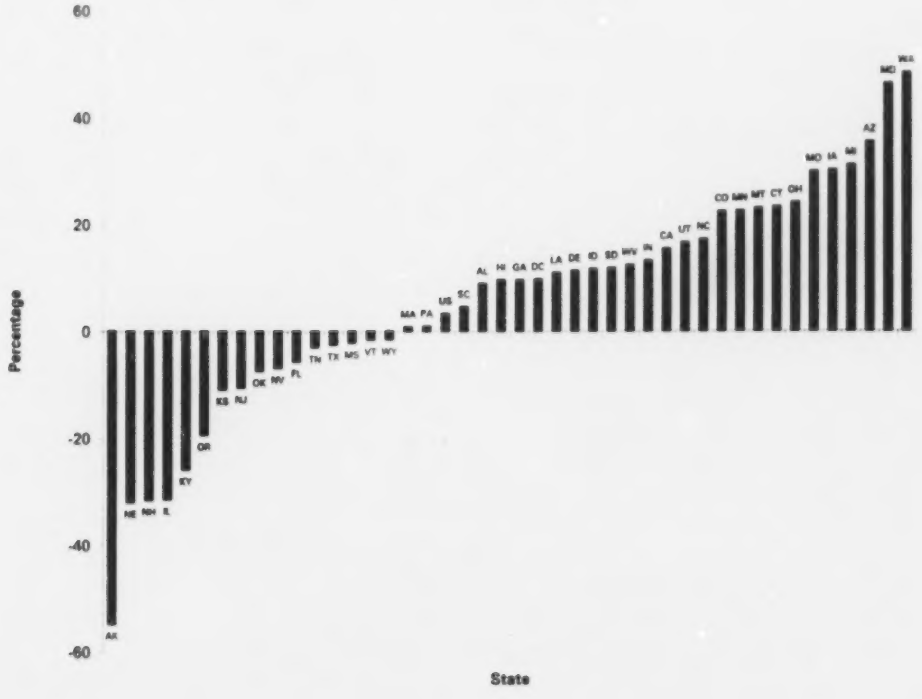
prevention services, family preservation services, child protective services, and in-home support services.

We mailed a questionnaire to each state child welfare director, and Urban Institute staff conducted extensive phone, facsimile, and e-mail follow-up. We received responses from 48 states (Arkansas, Maine, and North Dakota could not provide data); some states could not provide all the information requested. This situation limited our analysis in many instances to fewer than 48 states, and throughout the paper the actual number of states included in an analysis is noted. For those states that did not respond, claims and allocations from two federal funding streams were gathered to provide a lower bound estimate for total child welfare spending.

Given the composition of child welfare funding, there are limitations in attempting to adjust for inflation. Therefore we used the gross domestic product, a commonly used deflator to present changes in spending in real dollars.

The paper is organized in sections on total child welfare spending, federal spending, state spending, local spending, and spending on contracted services. The conclusions and discussion follow.

Figure 1 *Change in Total Child Welfare Spending between SFY 1996 and SFY 1998 (N = 43)*



Source: 1997 and 1999 Urban Institute Child Welfare Surveys.
Note: Excludes states that did not provide complete data for SFY 1996 or SFY 1998. Change is adjusted for inflation.

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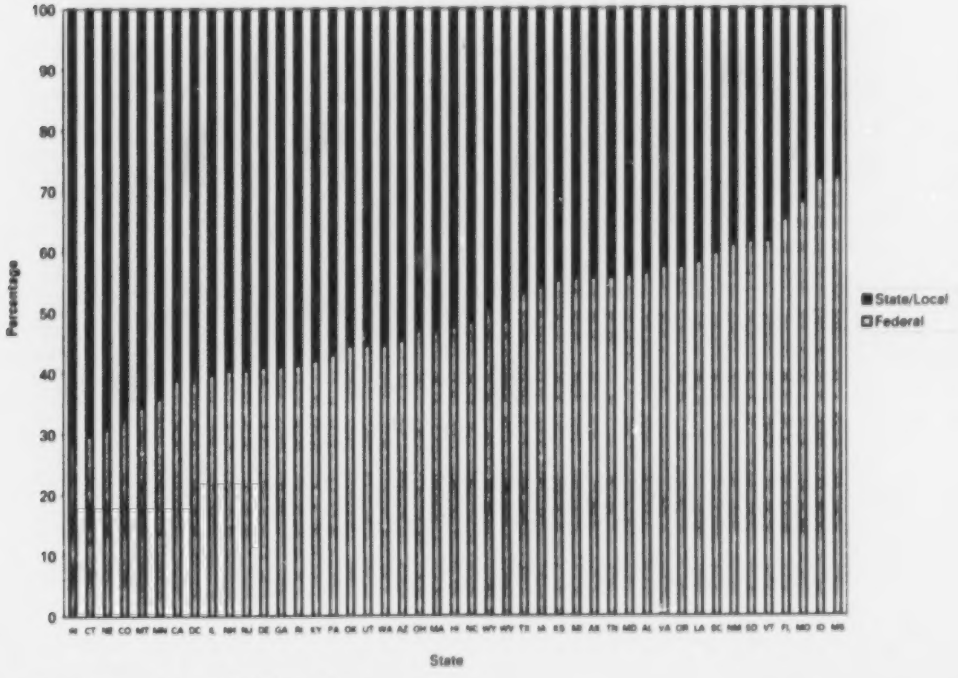
Total Child Welfare Spending

In SFY 1998, states expended at least $15.6 billion[5] on child welfare services, 3 percent more in real dollars than they expended in SFY 1996.[6] This increase may in part reflect better reporting by the states. Between SFY 1996 and SFY 1998, 27 states reported an overall increase in child welfare spending, with 23 states increasing spending by at least 10 percent. During the same period, 16 states reported an overall decrease, with 8 states reporting decreases of at least 10 percent (figure 1). Total spending and changes in total spending vary by state because funding is not only dependent upon caseload size, but is also affected by reliance on or maximization of federal funds, state legislative decisions or initiatives by the governor, court orders or consent decrees, and media or political pressure following a child's death from abuse or neglect.

Overall, states expended $7.1 billion in federal funds, $6.5 billion in state funds, and $1.7 billion in local funds. Among the 45 states that provided a total for federal, state, and local expenditures, federal funds accounted for 45 percent of total spending, state funds 42 percent, and local funds 13 percent.[7] However, states' reliance on federal funds varies widely (figure 2). In 20 states, federal funds accounted for more

Figure 2 *Comparison of States' Total Child Welfare Spending from Federal and State/Local Sources in SFY 1998 (N = 45)*



Source: 1999 Urban Institute Child Welfare Survey.
Note: Only 30 states were able to provide a total for federal, state, and local expenditures; however, 15 additional states were included in the analysis because they are state-administered systems.

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Table 1 *Key Federal Child Welfare Funding Sources (1998)*

Funding Source	Eligible Population	Eligible Services	Funding Level
Title IV-B			
Part 1 (child welfare services)	No eligibility criteria.	Services to prevent abuse and neglect, reduce foster care placements, reunite families, arrange adoption, and ensure adequate foster care.	Nonentitlement with 75 percent federal match with 1998 appropriations capped at $292 million.
Part 2 (promoting safe and stable families)	No eligibility criteria.	Services to support families and avert foster care, and services to reunify families and promote adoption.	State entitlement with 75 percent federal match with 1998 appropriations capped at $255 million.
Title IV-E Foster Care			
Maintenance Payments	Certain AFDC-eligible children.[a]	Payments to foster care providers to cover basic maintenance, including children's food and shelter and parental visits. Funds may not be used for direct services.	Open-ended entitlement program with federal match equal to state Medicaid matching rate. Expenditures in 1998 totaled $1.9 billion.
Administration	Expenses associated with title IV-E-eligible children in foster care and proportional administrative expenses for the ongoing protective services population.	Placement services, case management, eligibility determinations, licensing, foster care recruitment, and other administrative costs.	Open-ended entitlement program with 50 percent federal match. Expenditures in 1998 totaled $1.4 billion.
Training	Cost of training proportional to children eligible for title IV-E.	Training of agency staff and foster parents.	Open-ended entitlement program with 75 percent federal match. Expenditures in 1998 totaled $181 million.
Title IV-E Adoption Assistance			
Adoption Payments	Special needs children eligible for AFDC or Supplemental Security Income (SSI).	Payments to adoptive parents, not to exceed comparable foster care amounts, to cover basic maintenance costs including food, shelter, daily supervision, school supplies, insurance, and incidentals.	Open-ended entitlement program with federal match equal to state Medicaid matching rate. Expenditures in 1998 totaled $485 million.
Administration	Expenses associated with children eligible for IV-E adoption assistance.	Child placement and other administrative activities.	Open-ended entitlement program with 50 percent federal match. Expenditures in 1998 totaled $135 million.
Training	Cost of training proportional to children eligible for title IV-E.	Training of agency staff and adoptive parents.	Open-ended entitlement program with 75 percent federal match. Expenditures in 1998 totaled $20 million.
Nonrecurring Expenses	Special needs children.	Reasonable and necessary adoption fees, court costs, attorney fees, and related expenses.	Open-ended entitlement program with 50 percent federal match up to $2,000 per placement. 1998 expenditures are included in adoption payments above.

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Table 1 *Key Federal Child Welfare Funding Sources (1998) (continued)*

Funding Source	Eligible Population	Eligible Services	Funding Level
Title IV-E Independent Living	Youth age 16–18 (or at state option, up to 21) in IV-E-funded foster care or released from care and, at state option, non-IV-E-eligible youth.	Transition services including basic living skills training, education, and employment initiatives.	A state entitlement capped at $70 million in 1998. States were required to provide 50 percent matching for any federal funding claimed in excess of $45 million.[b] Expenditures in 1998 totaled $62 million.
Title IV-E Statewide Automated Child Welfare Information System (SACWIS)	Not applicable.	Funds support state efforts to develop automated child welfare information systems, including costs associated with planning, design, development, and installation.	Open-ended entitlement with an enhanced federal match of 75 percent authorized through 1997. Ongoing operational costs will be matched at a rate of 50 percent. Expenditures totaled $124 million in 1998.
Temporary Assistance for Needy Families[c]	Needy families with children (as defined by the state). For those services that meet one of the last two purposes of the program, there is no requirement that families be needy.	Child welfare–related services must meet one of the four purposes of the program *or* have been in the state's AFDC plan on September 30, 1995, or August 21, 1996.	A state entitlement (no individual entitlements) with funds capped at $16.5 billion through fiscal year 2002. No required state match, but states must spend 75 percent of what they spent in federal fiscal year 1994. Expenditures in 1998 for child welfare services totaled $393 million.
Social Services Block Grant	Varies by state.	States are given wide discretion in using funds for direct social services as well as administration, training, and case management.	A state entitlement with funds capped at $2.38 billion in 1998. Expenditures for child welfare services totaled $955 million in 1998.
Medicaid	Varies by state.	For child welfare purposes, targeted case management and rehabilitative services.	Open-ended entitlement with a variable federal matching rate, which is inversely related to a state's per capita income and can range from 50 to 83 percent. Expenditures for child welfare services totaled $689 million in 1998.
Supplemental Security Income	Low-income children and adults who are either aged (65 and over), blind, or disabled.	Payments are to cover food, clothing, and shelter, and some nonmedical, disability-related costs.	Federally funded program with no required state match. Expenditures for children in foster care totaled $97 million in 1998. It was previously not known what portion was spent on child welfare.

Source: Tabulated information from the 1999 Urban Institute Child Welfare Survey and the *1998 Green Book*.

a. Under welfare reform, eligibility for IV-E reimbursement is based on 1996 AFDC income eligibility standards.

b. This is no longer current law. The 1999 Foster Care Independence Act renamed the program the Chafee Foster Care Independence Program and increased funding to $140 million. States will be required to provide a 20 percent nonfederal match to receive their full share of funds, replacing the two-tiered system described above.

c. PRWORA ended the Emergency Assistance program, and the funds for the program were rolled into the TANF block grant to the states.

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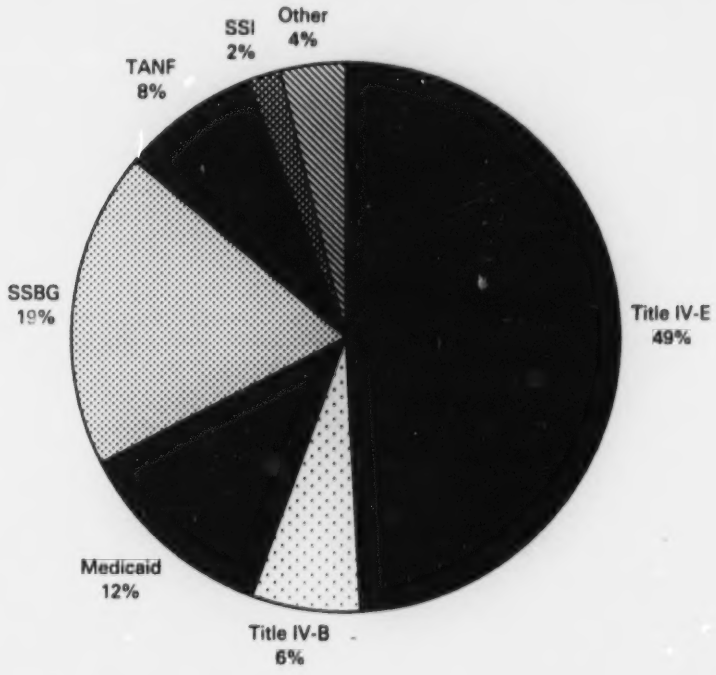
than half of all child welfare spending,[8] with 7 states relying on federal funds for at least 60 percent of all spending.

Several factors may explain this variation. First, these differences are at least partially due to differences in states' child welfare caseloads. Not all children in care are eligible for support from certain federal funding streams; therefore, some states may have more children in care eligible for federal support than do other states. Second, for some child welfare expenditures, the federal government reimburses states at different rates. For example, the federal share of foster care maintenance payments ranges from 50 to 83 percent depending upon the state's per capita income. States with lower per capita incomes, such as Mississippi, receive greater federal support.

Figure 3 *SFY 1998 Federal Child Welfare Spending by Funding Source (N = 38)*
Total Spending = $4.4 billion



Source: 1999 Urban Institute Child Welfare Survey.
Note: Excludes states that did not provide complete data on federal spending.

Third, differences in states' reliance on federal funds may reflect differences in their ability to identify and claim expenditures for federal reimbursement.

Of the $15.6 billion in total child welfare spending identified, states were able to categorize $13.6 billion by how the funds were used. States expended $9.4 billion on children and supportive services for children in out-of-home placements, $1.3 billion on administration, $1.4 billion on adoption, and $1.5 billion on other services. Seventeen states were able to categorize all of their spending. An analysis of these states found that spending for out-of-home placements accounted for 63 percent of

total spending, administration for 11 percent, adoption for 9 percent, and other services for 17 percent.

The following sections discuss child welfare spending by expenditures incurred by federal, state, and local governments.

Federal Spending

In 1998, child welfare was financed by almost 40 separate federal programs; however, titles IV-B and IV-E of the Social Security Act are the principal sources of federal funds dedicated to child welfare activities. Other federal programs not dedicated for child welfare, such as Medicaid and TANF, and several discretionary grants are also used for child welfare purposes. This section focuses on the major federal funding sources for child welfare (table 1).

As stated above, total federal expenditures were $7.1 billion in SFY 1998. The 44 states that provided a total for federal spending in both rounds of the survey reported a 7 percent increase in federal spending between SFY 1996 and 1998.[9] Thirteen states reported increasing federal spending by 20 percent or more, while 8 states reported decreasing federal spending by more than 10 percent (see table 5 later in this paper). Of these 44 states, 38 were able to identify expenditures from the federal funding streams identified for SFY 1998.[10] An analysis of these states found expenditures from title IV-E accounted for 49 percent of all federal funds, title IV-B accounted for 6 percent, Medicaid for 12 percent, SSBG for 19 percent, TANF for 8 percent, SSI for 2 percent, and other federal funds for 4 percent (figure 3). These funding streams are discussed in more detail below.

Table 2 *SFY 1998 Title IV-E Expenditures*

	SFY 1998 Expenditures in $ Billions[a]	% Change from SFY 1996
Total IV-E[b]	$4.3	22%
Foster Care[c]	3.6	19
Maintenance payments	1.9	23
Administration, training, SACWIS	1.7	14
Case planning and preplacement services[d]	0.6	N/A
Administration and overhead	0.3	N/A
Adoption Assistance	0.6	42
Adoption payments	0.5	38
Administration and training	0.2	53
Independent Living	0.06	5

Source: Tabulated information from the Urban Institute Child Welfare Survey.

a. Numbers may not total due to rounding.

b. Change reported for title IV-E is based on 44 states. All percentage changes in the table are adjusted for inflation.

c. Changes reported for Foster Care, Adoption Assistance, and Independent Living are based on 37 states.

d. Case planning and preplacement services and administration and overhead are subcategories under IV-E Foster Care administration. Thirty-three states provided these data. States reported expending a total of $1.4 billion on IV-E Foster Care administration; therefore, it is unknown how $500 million of administration expenditures were spent.

Note: N/A = not available.

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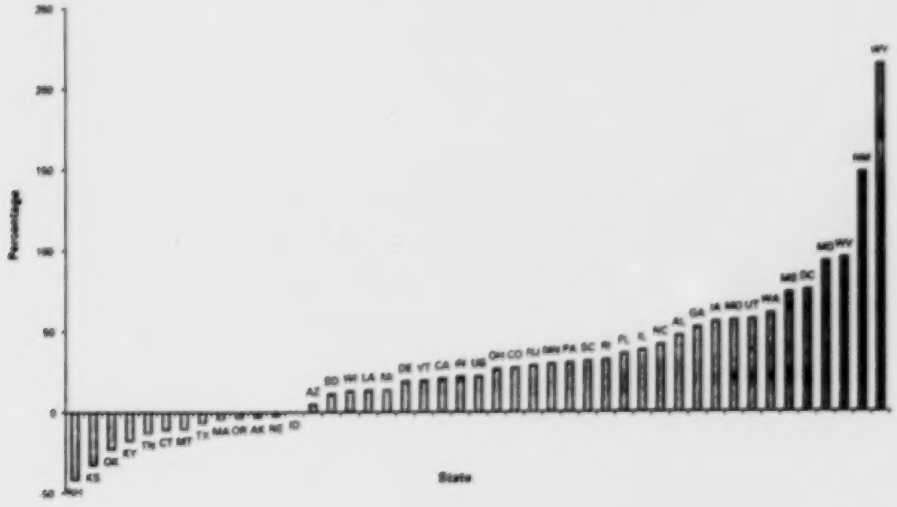
Federal Funds Dedicated for Child Welfare

Titles IV-B and IV-E are the two federal programs dedicated for child welfare.[11] Title IV-E, the largest funding stream, consists of both Foster Care and Adoption Assistance programs, which are open-ended entitlements, and the Independent Living program, which is a capped entitlement. Title IV-B is a capped allocation to the states that consists of two parts—Child Welfare Services and Promoting Safe and Stable Families. There are also several relatively small federal discretionary grants targeted for child welfare purposes that will be discussed later in this section.

Title IV-E

The IV-E Foster Care program reimburses states at different match rates for maintenance payments provided to cover the cost of shelter, food, and clothing for eligible children in care; placement and administrative costs; and training for staff and foster and adoptive parents.[12] The IV-E Adoption Assistance program also reimburses the states at different rates for adoption assistance payments made to adoptive parents of eligible special needs children; administrative costs; training for staff and adoptive parents; and for nonrecurring expenses, such as court costs and attorney fees, associated with the adoption of special needs children.[13] The IV-E Independent Living program provides funds that can be used for a range of activities, including vocational and educational training, basic life skills training (e.g., housekeeping and money management), and employment initiatives, for youth (age 16 to 21) in care or released from care regardless of IV-E eligibility.[14]

Figure 4 *Change in Title IV-E Spending between SFY 1996 and SFY 1998 (N = 44)*



Source: 1997 and 1999 Urban Institute Child Welfare Surveys.
Note: Excludes states that did not provide complete data for SFY 1996 or SFY 1998. Wyoming reported a large increase in SACWIS spending in SFY 1998. Change is adjusted for inflation.

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In SFY 1998, the states expended a total of $4.3 billion in title IV-E funds, $700 million more than they expended in SFY 1996 (table 2).[15] An analysis of the 44 states that provided title IV-E expenditures for SFY 1996 and 1998 found that this was an increase of 22 percent. This change is surprising considering that the average monthly number of IV-E-eligible children is estimated to have increased 11 percent over the same two-year period nationally. However, this change in spending is consistent with the data presented in the *2000 Green Book*.[16] Twenty-two states reported increasing expenditures by more than 25 percent, while 13 states reported decreasing expenditures (figure 4).

It appears that most of the increase in IV-E expenditures is the result of maximization efforts that states, and even some counties, have undertaken—hiring consultants or creating units specifically to maximize federal funds. As part of the Urban Institute's *Assessing the New Federalism* (ANF) project studying changes in social policies in this era of devolution of responsibility from the federal government to the states, we conducted interviews with child welfare administrators at the state and local levels in 13 states. On the basis of these interviews, we found, for example, that New Jersey's child welfare agency was given an additional 11 positions for revenue specialists, in addition to hiring a consulting firm to maximize federal revenue. Alabama, Michigan, and Wisconsin also hired consultants for revenue maximization. Texas's state child welfare agency is providing more training to the localities to maximize IV-E funds. In addition, administrators informed us that allowing IV-E funds to be used for children served by for-profits appears to have had minimal or no impact on spending.

States have an incentive to maximize IV-E funds because it is an open-ended entitlement, meaning within the guidelines for eligible children, services, and expenses, there is no limit on how much a state may claim for reimbursement. States are reimbursed for funds expended to meet the purposes of the IV-E Foster Care and Adoption Assistance programs.

Title IV-E Foster Care

States expended $3.6 billion in title IV-E Foster Care funds in SFY 1998, $600 million more than they expended in SFY 1996. This is an increase of 19 percent.[17] Within the IV-E Foster Care program, states expended $1.9 billion for maintenance payments, while expenditures for administration, training, and Statewide Automated Child Welfare Information Systems (SACWIS) combined were $1.7 billion.[18] Within the category of administration, states expended $580 million on case planning and preplacement services and $288 million on administration and overhead.[19] Expenditures for maintenance payments increased by 23 percent, while spending for administration, training, and SACWIS combined increased by 14 percent. Fifteen states reported expenditure increases of 30 percent or more for maintenance payments, while only 10 states reported decreases in maintenance payments at all.

Some of the increase in maintenance payments may be attributed to increases in the use of more expensive residential facilities (increased cost per case) and to changes in states' accounting systems improving the determination of IV-E eligibility, as discussed above.[20] The growth may also be attributed to increases in the rates

paid to providers. Some of the increase in the combined administration, training, and SACWIS costs may be due to the more complicated eligibility determination procedures; since a child's eligibility is still based on his or her family's eligibility for the Aid to Families with Dependent Children program as in effect on July 16, 1996, in each state. As well, the increase may be due to changes in training requirements within the states or initiatives to offer more training for staff.

Title IV-E Adoption Assistance

In SFY 1998, states expended $642 million in IV-E Adoption Assistance funds, 42 percent more than they expended in SFY 1996. Within the IV-E Adoption Assistance program, states expended $485 million for adoption payments and $156 million for administration and training.[21] Spending on adoption payments increased 38 percent, while spending on administration and training increased 53 percent. Thirty-three states reported increasing expenditures for adoption payments, while four states reported decreasing expenditures.

Title IV-E Independent Living

In 1998, funding for IV-E Independent Living was capped at $70 million and states were required to provide a 50 percent nonfederal match for all funds received above the initial allocation of $45 million. Shares were allocated to states based on the number of children in the state who were receiving IV-E Foster Care in 1984. This is no longer current law.[22]

States expended $62 million in IV-E Independent Living funds in SFY 1998, 5 percent more[23] than they expended in SFY 1996. Twenty-two states reported decreases in expenditures of Independent Living funds, while nine states reported increases.[24] One point to note is that states did not spend the allocated amount of $70 million in 1998. The law allows states to spend the funds in the fiscal year received or in the next fiscal year, which may account for some of the variation.

Title IV-B

Subpart 1 of title IV-B, Child Welfare Services, provides grants to the states to prevent placement and reunify families, prevent abuse and neglect, and provide services to children in foster care or adoptive homes. A limited amount of these funds may be used for foster care maintenance payments, adoption assistance payments, and child day care. Child Welfare Services grants are capped allocations to the states based on their under-21 population and per capita income.

Subpart 2 of Title IV-B, Promoting Safe and Stable Families,[25] funds family preservation and community-based family support programs. Broadly defined, family preservation programs serve families at risk of having their children placed in foster care, while family support programs serve families who are not yet in crisis and attempt to prevent abuse and neglect from occurring. ASFA added two categories that may also be funded—time-limited family reunification services and adoption promotion and support services. Time-limited reunification services are provided to children and their families to promote the safe return of children to their parents

Table 3 *SFY 1998 Expenditures from Nontraditional Federal Funds*

	TANF	SSBG	Medicaid	Total
SFY 1998 Expenditures in $ Millions	$393	$955	$689	$2,037
% Change from SFY 1996[a]	(47%)	5%	0.09%	(14%)
Out-of-Home Placement	$124	$356	$318	$798
Adoption	2	22	12	36
Administration	44	113	47	204
Other Services	59	298	116	473
Unknown[b]	164	166	196	526

Source: Tabulated information from the 1999 Urban Institute Child Welfare Survey.
a. Changes in TANF are based on data from 40 states, SSBG based on 38 states, Medicaid based on 39 states, and total based on 32 states. All percentage changes are adjusted for inflation.
b. States were not able to provide information on how all funds were used.

within 15 months of entering foster care. Services include counseling and substance abuse and mental health services. Adoption promotion and support services are pre- and postadoptive services that facilitate adoptions of children in the foster care system and support adoptive families. Promoting Safe and Stable Families grants are capped allocations to each state based on the average monthly number of children receiving food stamps within the state for the three previous fiscal years as a proportion of the average monthly number of children receiving food stamps in the nation for the three previous fiscal years. Families receiving services funded under Title IV-B do not have to meet any federal eligibility requirements.

In SFY 1998, states expended $438 million in IV-B funds, an increase of 1 percent since SFY 1996.[26] States were able to categorize $338 million of these funds by type of use: $87 million were expended on out-of-home placements, $7 million on adoption, $83 million on administrative purposes, and $161 million on other services. It is important to note that of the $338 million states were able to categorize, 26 percent was used for out-of-home placements, while 48 percent was expended on other services. Title IV-B is generally thought of as the funding source for prevention and other in-home services; however, there are allowances for the funds to be used to provide maintenance payments and services to children in out-of-home placements, and states take advantage of these allowances.

Nontraditional Federal Funds for Child Welfare

In addition to titles IV-B and IV-E, which are dedicated funds for child welfare, there are other federal programs (TANF, SSBG, and Medicaid) that may be used for child welfare purposes even though they are not targeted primarily for child welfare. The ability to use these funds for child welfare activities and the types of services that may be funded vary by the eligibility rules and guidelines of each program. In SFY 1998, expenditures from TANF, SSBG, and Medicaid combined were more than $2 billion and represented 39 percent of all federal funds for child welfare activities. Expenditures from these funds combined decreased 14 percent from SFY 1996

(table 3).[27] State variation in the use of these nontraditional funds ranged from no use in Virginia to 64 percent of all federal funds in Rhode Island.[28] The collective impact of welfare reform on these nontraditional child welfare funds is not clear, but examining each funding stream individually reveals changes in spending.

Temporary Assistance for Needy Families

TANF is a capped block grant program with no required state match, although states must spend their own funds to receive the grant.[29] Within certain guidelines, states may fund a variety of child welfare activities using TANF funds, including services for family reunification, parenting education, in-home family services, and crisis intervention. States can also use TANF funds to support children that child welfare has removed from their parents' homes and placed with relative or kinship caregivers.

PRWORA ended the EA program and rolled these funds into the TANF block grant. The impact of this change on child welfare funding is still unclear. EA was an open-ended entitlement program with a federal match rate of 50 percent, and states were given wide latitude to fund a variety of child welfare activities through it. For example, services for prevention, family reunification, counseling, parenting education, case management, in-home family services, and crisis intervention could have been funded under EA. States were also able to use EA funds for activities not reimbursable under title IV-E, such as costs associated with foster care for children not eligible for IV-E.

States are able to use federal TANF funds for child welfare activities if the activities meet one of the four purposes of the TANF program—for example, parenting education classes, family preservation programs, and cash assistance or supportive services for needy relative caregivers.[30] States are also permitted to spend TANF funds on activities related to foster care or other child welfare activities that do ***not*** meet any of the four purposes of the TANF program if these activities were in the state's approved Aid to Families with Dependent Children (AFDC) plan on September 30, 1995, or, at state option, the approved plan in effect on August 21, 1996. For example, if a state's approved AFDC plan allowed the use of EA funds for nonrelative foster care placements, the state may continue to use TANF funds for this purpose. If this allowance was not in the approved state plan, the state may not use TANF funds for this purpose because it does not meet any of the four purposes of the program.

In SFY 1998, states expended $393 million in TANF funds for child welfare purposes.[31] Based on the 40 states that provided data for both years, this is 47 percent less than the reported expenditures for SFY 1996. Only 10 states increased total TANF expenditures, while 28 states reported decreased TANF expenditures (see table 5).

It appears, however, that in 1999, states began to increase their use of TANF for child welfare purposes, although still not in levels equivalent to those before the block grant. For example, Massachusetts reported expending zero dollars in TANF funds in SFY 1998 for child welfare purposes; however, during interviews with child welfare administrators, we were informed that $42 million in TANF funds had been

allocated to the child welfare agency in SFY 1999. Texas child welfare administrators, who reported expending $55 million in TANF funds in SFY 1998, stated that the legislature had appropriated more than $200 million in TANF funds for child welfare in 2000–01. For this reason, the impact of welfare reform on TANF spending for child welfare purposes is unclear.

There may be several reasons why states initially reduced their TANF child welfare expenditures. Until the final TANF rules were released in April 1999, many child welfare administrators were admittedly confused about the possibility of using TANF either for former EA purposes or for new purposes. In addition, there was, and still is, a lack of confidence in using TANF funds for child welfare purposes for fear that these funds will not be available in an economic downturn.[32] Furthermore, some services that may have been funded by EA through the child welfare agency may now be offered through the TANF agency using TANF funds and would not show up in the child welfare agency's expenditures (e.g., parenting education classes). Child welfare clients may still have access to the same or similar services through the TANF agency that were available through the child welfare agency; therefore, it should not be assumed that this decrease in funding implies a decrease in services or access to services for child welfare clients. Also, these expenditures do not account for TANF funds that states have transferred to the Social Services Block Grant.

Some states rely more heavily on TANF funds than others. In SFY 1998, in 13 of the 25 states that reported spending TANF funds, TANF represented more than 10 percent of all federal funds.[33] Idaho, Pennsylvania, South Dakota, and Texas reported expending TANF funds representing more than 20 percent of the federal funds used for child welfare purposes.[34]

Of the $393 million in TANF funds identified, states reported expending $124 million on out-of-home placements, $2 million on adoption, $44 million on administration, and $59 million on other services. As a proportion of total federal funds expended, reliance on TANF funds varies by how the funds are used. For example, in Texas, 28 percent of all federal funds expended for out-of-home placements are TANF funds, while in Idaho, only 2 percent are TANF funds.[35] In Idaho, TANF expenditures for administration are 30 percent of all federal funds; in Indiana, only 2 percent are TANF funds.[36] In Idaho and North Carolina, TANF expenditures for other services are more than 87 percent of all federal funds; in Texas, TANF funds represent 6 percent of federal funds for other services.

The flexibility of TANF has also allowed some states and localities to create new programs for child welfare clients using TANF dollars. For example, in Denver County, Colorado, the child welfare and TANF agencies combined TANF and child welfare funds to create two units within the child welfare agency specifically designed to serve families involved in both systems. One unit will work with families trying to prevent placement; the second unit will work to reunify families. In Florida and Wisconsin, TANF funds are being used to support relative caregivers. In Wisconsin, cash assistance is provided to relatives caring for a child who would be at risk of abuse or neglect if the child remained with the parent or legal guardian. Florida's Relative Caregiver Program provides a payment greater than the TANF child-only payment but less than the foster care payment to relatives caring for children adjudicated dependant by the courts (Ehrle et al. in press).

Social Services Block Grant

SSBG is a capped entitlement program with no required state match, and the states are given wide discretion to determine the services funded by SSBG and the eligible population. States use SSBG funds for a variety of child welfare–related activities, including preventive, protective, and adoption services and services for children in foster care. SSBG funds may also be used for room and board in cases of temporary emergency shelter provided in protective service cases. In SFY 1998, states reported expending $955 million in SSBG funds, 5 percent more than in SFY 1996.[37] Nineteen states reported increasing SSBG expenditures, while eighteen states reported decreasing expenditures (see table 5).

Two reasons SSBG funds expended on child welfare are showing an increase may be that (1) states took advantage of the allowable transfers from TANF to SSBG, thereby reducing the impact of the cut;[38] (2) with enhanced support for child care through TANF and the Child Care and Development Block Grant, states may have cut SSBG funds in child care, thereby releasing more funds for child welfare purposes.

As with TANF, states' reliance on SSBG varies, representing 4 to 45 percent of federal funds expended on child welfare. In 14 states, SSBG represented more than 20 percent of federal funds.[39] In Idaho, Kansas, Wisconsin, and Wyoming, more than 35 percent of federal funds came from SSBG.

Of the $955 million in SSBG funds expended, states were able to identify how they used $789 million. States reported expending $356 million on out-of-home placements, $22 million on adoption, $113 million on administration, and $298 million on other services.

Medicaid

States can also use Medicaid, an open-ended entitlement, to fund some services provided by the child welfare agency through two optional services: targeted case management and rehabilitative services. We specifically requested that Medicaid expenditures for routine health care services provided for children in foster care be excluded. Through targeted case management services, a portion of child welfare workers' salaries are paid by Medicaid for assisting eligible clients in accessing necessary medical, social, educational, and other services. Rehabilitative services are medical or remedial services provided for the reduction of a physical or mental disability to assist child welfare clients and others to reach a better functional level.

States expended $689 million in Medicaid funds for child welfare in SFY 1998, .09 percent more than was reported in SFY 1996. The analysis of Medicaid is based on data from 39 states, of which only 7 reported decreasing expenditures and 26 reported increasing expenditures (see table 5).[40]

The increases in Medicaid expenditures may be due to improved awareness of the ability to use these funds for certain services for which other funding streams, such

as state funds, may have previously been used. There are several reasons why some states decreased expenditures, one of which is that some states may have previously been sanctioned for inappropriate reimbursements and may be cautious about submitting claims. Second, states may have become better at determining IV-E eligibility for some children for whom services were previously funded through Medicaid, thereby shifting funds from Medicaid to title IV-E.

Among the states, there is variation in the use of Medicaid, with some states relying more heavily on Medicaid for child welfare than others. For example, Rhode Island and South Carolina reported that Medicaid expenditures are more than 48 percent of the federal funds used, more heavily used than even IV-E. Ten states reported that Medicaid is less than 5 percent of the federal funds used. State variation in the use of Medicaid may be due to the specifics of Medicaid billing, which may make it too complicated for some states to claim child welfare expenditures. In addition, some state Medicaid directors may wish to keep the program from increasing spending, therefore denying the use of Medicaid funds for child welfare services. States are also reimbursed at different rates for eligible expenses, which may explain some of the variation in state reliance on Medicaid funds.

Of the $689 million in Medicaid reported, states were able to categorize how $493 million was used. States expended $318 million on services for children in out-of-home placements, $12 million on services for children in adoptive homes, $47 million on administration, and $116 million on other services.

It is important to note that TANF, SSBG, and Medicaid expenditures combined equal 34 percent of the federal funds expended for out-of-home placements.[41] Looking at each funding stream individually, it is clear that the majority of funding is concentrated on out-of-home placements. One explanation for this is that on average, half the foster care population is *not* title IV-E eligible; therefore, states must use other revenue sources to care for these children and provide services to them. Moreover, states have an incentive to seek federal revenue sources before using state funds. For example, because SSBG has no eligibility requirements, allows states flexibility in the programs that may be funded, and does not require the states to match funds, a state may desire to use SSBG funds before using state funds.

Additional Federal Funds for Child Welfare

SSI is a national program for the aged (65 or older), blind, or disabled. Children under age 18 may be eligible for SSI if they are determined disabled because of "a medically determinable physical or mental impairment, which results in marked and severe functional limitations, and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months" (Social Security Act 1996). SSI funds are provided for the care of eligible low-income children including food, clothing, shelter, and some nonmedical, disability-related costs.

In the 1999 survey, we asked the states to report on the SSI benefits received on behalf of eligible children in out-of-home placements, a question that was not asked in the 1997 survey. Thirty states reported expending $97 million in SSI funds on children in out-of-home placements in SFY 1998. Eligible children in foster care may

receive SSI instead of IV-E maintenance payments, and states have an incentive to seek SSI eligibility determinations for these children. SSI is fully federally funded with no required state match (unlike IV-E); typically, SSI payment levels are also higher than IV-E maintenance payments. The financial impact of the change in eligibility determinations created by welfare reform is unknown.[42]

We also asked the states to report on the use of additional federal funding streams for child welfare, such as Child Abuse and Neglect grants and Children's Justice Act grants.[43] In SFY 1998, states expended $192 million in additional federal funds, 8 percent more than in SFY 1996.[44] The states were able to categorize how $81 million was expended: $5 million was spent on services for children in out-of-home placements, $1 million on adoption, $2 million on administration, and $73 million on other services.

Table 4 *SFY 1998 Percentage of Federal Spending by Source for Out-of-Home Placements, Adoptions, Administration, and Other Services*[a]

Source	Out-of-Home Placements	Adoption	Administration	Other Services
Title IV-E	58%	86%	17%	0%
Title IV-B	4	2	14	20
TANF	4	1	10	12
SSBG	16	7	38	36
Medicaid	14	4	21	18
SSI	4	0	0	0
Other Federal Funds	0.26	0.47	1	14
Spending in $ Millions	$1,669	$223	$209	$448
	N = 21	N = 21	N = 19	N = 19

Source: Tabulated information from the 1999 Urban Institute Child Welfare Survey.
a. Excludes states that use these funds but could not categorize how funds were used for all federal sources.

States' Use of Federal Funds

Of the $7.1 billion in federal funds identified, states expended $4.5 billion on out-of-home placements, $686 million on adoption, $412 million on administration, and $707 million on other services.[45] States were unable to categorize how $795 million in federal funds was used. Table 4 shows how the funds were used for out-of-home placements, adoption, administration, and other services broken down by the federal sources discussed above.[46]

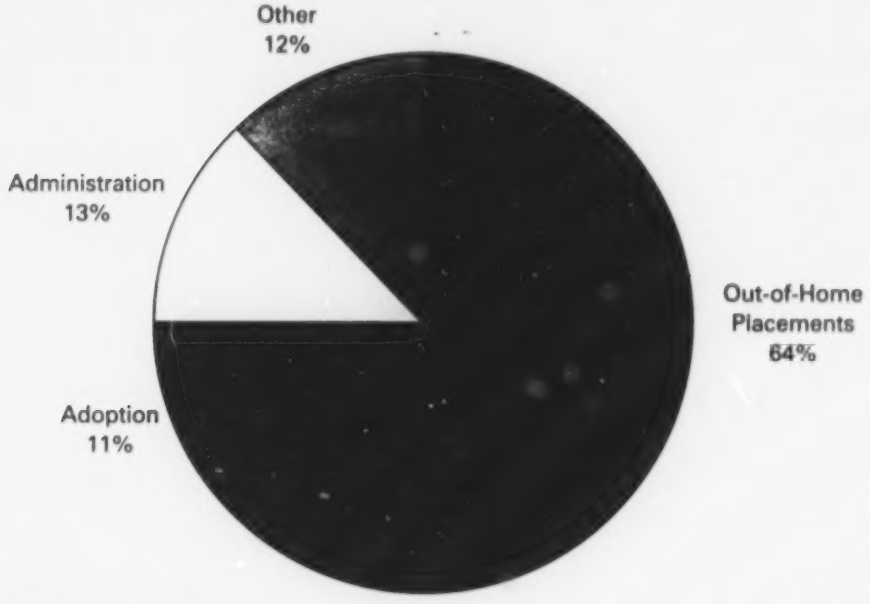
State Spending

Some children who are maltreated and removed from home are not eligible to be cared for with federal funds such as title IV-E or SSI because they do not meet

the eligibility criteria for these programs. Therefore, states must use their own funds in addition to the federal resources they receive to finance child welfare services. States must also match some of the federal funds they receive, so there is a certain amount of state funds expected to be spent, although most states provide funding beyond these required matches.

State spending was at least $6.5 billion in SFY 1998, 5 percent less than reported in SFY 1996;[47] however, there is variation in the changes individual states experienced. Seventeen states reported increasing state spending by more than 10 percent, while 13 states reported decreasing state spending by more than 10 percent (see table 5). Changes in the use of state funds may occur for a number of reasons, includ-

Figure 5 *SFY 1998 State Child Welfare Spending by Type of Use (N = 30)*
Total Spending = $4.5 Billion

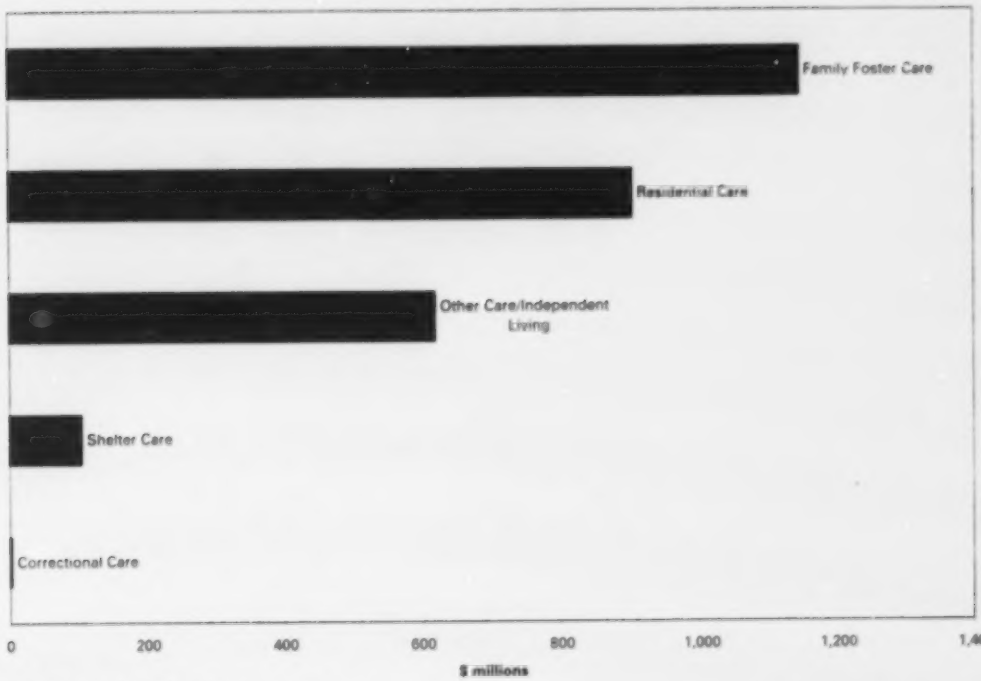


Source: 1999 Urban Institute Child Welfare Survey.
Note: Excludes states that could not categorize spending.

ing changes in caseload size, reliance on or maximization of federal funds, state legislative decisions or initiatives by the governor, unfunded federal mandates, changes in the required local share of costs, or media or political pressure following a child's death from abuse or neglect.

States were able to categorize $5.8 billion in state funds by how the funds were used. In SFY 1998, states expended $3.8 billion on out-of-home placements, $702 million on adoption, $646 million on administration, and $609 million on other services (figure 5). States were unable to categorize how $700 million in state funds were used. States increased spending on out-of-home placements by 45 percent, increased spending on adoption by 33 percent, decreased spending on administration by 45 percent, and decreased spending on other services by 66 percent.[48]

Figure 6 *SFY 1998 State Spending on Out-of-Home Placement*
Total Spending = $2.8 Billion

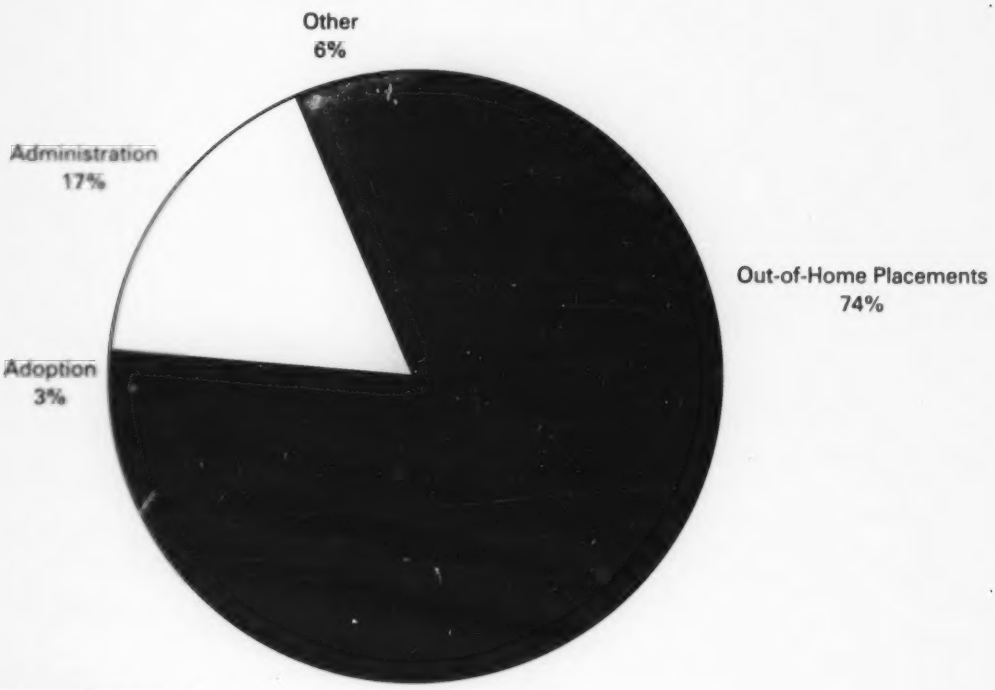


Source: 1999 Urban Institute Child Welfare Survey.
Note: These total dollars reported represent minimum spending. Several states could not provide any or complete data for all the categories.

Under out-of-home placement, we have categorized family foster care, shelter care, residential care, correctional care,[49] independent living, and other placements (those that do not fall into these categories). Of the $3.8 billion in state funds expended on out-of-home placements, states categorized $2.8 billion by type of placement (figure 6). In SFY 1998, states expended $1.1 billion on family foster care, $903 million on residential care, $104 million on shelter care, $3 million on correctional care, and $618 million for independent living and other placements. States increased spending on family foster care by 21 percent, decreased spending on residential care by 10 percent, and increased spending on shelter care by 40 percent.[50] Some of the increases may be due to better reporting by states and changes in caseload. The decrease in state spending on residential care may reflect states' improved abilities to claim federal funds for these deep-end services, that is, state maximization efforts.

It should be noted that state spending on out-of-home placements is significantly more than state spending on other services (which includes prevention and family preservation services). As well, spending on these types of services decreased 66 percent since SFY 1996. It is not clear why this decrease occurred.

Figure 7 *SFY 1998 Local Child Welfare Spending by Type of Use (N = 24)*
Total Spending = $1.3 Billion



Source: 1999 Urban Institute Child Welfare Survey.
Note: Excludes states that could not categorize spending.

Local Spending

In SFY 1998, states expended $1.7 billion in local funds for child welfare, 19 percent more than in SFY 1996.[51] Reliance on local funds varies, with county-administered states relying more heavily on local funds than state-administered states. However, as noted earlier, state-administered states may have difficulty identifying local funds. In SFY 1998, states reported local funds ranging from .02 percent of total spending in Alabama to 70 percent in Indiana.

Of the $1.7 billion expended, states were able to categorize how $1.5 billion was used. States expended $1 billion in local funds on out-of-home placements, $43 million on adoption, $227 million on administration, and $173 million on other services (figure 7).[52]

Expenditures on Contracted Services

Many child welfare agencies rely on contracted agencies to provide a variety of services. Services that state or local child welfare agencies typically contract out include family preservation and support services, respite care, and some residential

Table 5 *SFY 1998 State-by-State Data*[a]

State	Total Spending	Change	Federal Spending	Change	Title IV-E	Change	Title IV-B	Change	TANF	Change
Alabama	$101,283,472	8.84%	$57,184,542	24.15%	$13,613,014	47.07%	$10,539,627	27.70%	$7,464,781	-21.48%
Alaska	23,532,203	-54.77%	13,072,082	16.17%	8,594,375	-3.12%	1,011,535	-57.53%	0	
Arizona	199,448,534	35.41%	90,241,515	40.76%	57,831,091	4.95%	8,041,325		6,899,759	119.36%
Arkansas[b]	63,861,404		40,048,797		34,498,073		5,550,724		N/A	
California	2,634,556,447	15.34%	1,023,741,667	11.01%	928,075,808	20.83%	66,452,503	65.60%	507,922	-99.44%
Colorado	242,245,638	22.35%	78,301,438	-18.54%	37,497,242	27.19%	4,179,386	-22.18%	2,150,000	-83.84%
Connecticut	257,715,105	23.21%	76,224,395	-4.13%	66,161,652	-10.99%	3,847,082	248.37%	0	-100.00%
Delaware	34,737,266	11.24%	14,205,379	43.02%	7,413,172	19.24%	1,128,789	98.72%	0	
District of Columbia	113,352,850	9.64%	44,296,554	56.81%	41,121,202	75.18%	805,187	-18.90%	0	-100.00%
Florida	414,695,687	-5.67%	270,305,714	10.68%	141,807,806	35.95%	27,249,428	29.24%	0	-100.00%
Georgia	244,547,064	9.55%	100,071,687	4.27%	46,741,029	52.19%	14,588,417	33.26%	0	-100.00%
Hawaii	48,590,257	9.52%	23,114,261	3.20%	17,328,733		2,102,003		N/A	
Idaho	42,898,948	11.57%	30,830,277	26.02%	8,522,994	-0.24%	1,724,803	-22.07%	7,372,649	93.62%
Illinois	1,300,315,000	-31.38%	515,779,852	-16.80%	326,261,487	37.96%	12,840,126	-27.10%	0	-100.00%
Indiana	370,343,984	13.13%	104,125,202	28.52%	64,376,591	22.11%	10,984,384	0.25%	1,938,263	-73.04%
Iowa	218,673,017	30.11%	118,022,762	74.62%	38,083,048	55.69%	4,025,879	-11.11%	19,125,142	70.86%
Kansas	117,448,069	-10.84%	64,685,152	8.30%	19,431,581	-32.64%	4,128,087	23.22%	0	-100.00%
Kentucky	190,198,358	-25.82%	79,874,935	-20.15%	47,008,159	-17.55%	8,032,248	23.78%	0	-100.00%
Louisiana	182,286,235	10.87%	106,122,378	-2.09%	58,266,427	13.57%	12,437,871	33.32%	0	-100.00%
Maine[b]	56,883,726		36,317,974		33,974,370		2,343,634		N/A	
Maryland	286,100,287	46.34%	160,590,804	64.57%	95,388,801	92.88%	9,204,164	19.13%	2,110,629	-9.64%
Massachusetts	508,306,336	0.75%	238,927,065	10.56%	106,225,707	-4.02%	7,859,688	77.27%	0	-100.00%
Michigan	523,904,500	31.02%	290,398,900	35.99%	185,181,000	13.68%	19,529,900	30.52%	38,513,300	231.64%
Minnesota	436,401,323	22.46%	156,939,808	16.47%	70,693,769	29.68%	7,284,363	19.04%	10,300,000	5.53%
Mississippi	49,981,611	-2.15%	36,045,239	6.03%	18,001,408	73.53%	4,395,635	-55.94%	N/A	
Missouri	353,484,035	29.82%	240,340,133	19.22%	82,869,127	56.48%	6,065,727	-3.48%	28,008,538	-41.70%
Montana	36,874,000	22.96%	12,680,000	-33.88%	9,045,000	-10.39%	2,005,000	58.29%	1,000,000	-52.13%
Nebraska	72,516,909	-31.95%	22,239,057	-70.56%	20,507,146	-2.36%	1,731,911	-92.07%	0	-100.00%
Nevada[b]	42,448,934	-6.87%	14,248,878		11,774,721		2,474,157		N/A	
New Hampshire	70,175,522	-31.52%	28,309,841	-40.85%	12,582,156	-41.71%	1,632,483	-13.71%	4,811,358	-46.50%
New Jersey	402,659,107	-10.49%	162,549,107	7.18%	60,843,107	28.61%	9,188,000	9.75%	21,445,000	85.93%
New Mexico	64,151,816		39,220,716	40.10%	17,793,839	148.02%	3,661,050	-15.19%	0	-100.00%
New York[b, c]	1,484,167,422		624,052,065		609,234,840		14,817,225		N/A	
North Carolina	196,629,327	17.16%	94,948,757	9.50%	62,928,152	41.52%	5,804,205	-49.31%	16,619,862	-40.40%

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Table 5 *SFY 1998 State-by-State Data[a] (continued)*

State	Total Spending	Change	Federal Spending	Change	Title IV-E	Change	Title IV-B	Change	TANF	Change
North Dakota[b]	21,456,344		12,569,358		11,467,392		1,101,966		N/A	
Ohio	613,248,851	23.97%	288,115,052	16.76%	236,848,350	26.76%	14,162,463	1.08%	N/A	
Oklahoma	102,473,303	-7.38%	45,513,208	-20.55%	13,288,033	-22.79%	8,245,905	-59.34%	N/A	
Oregon	202,776,621	-19.33%	116,625,487	17.30%	31,724,361	3.49%	5,528,372	62.37%	20,367,850	5.08%
Pennsylvania	1,035,097,700	0.91%	444,206,101	-3.80%	299,677,549	30.45%	10,006,191	-52.12%	120,378,155	-36.64%
Rhode Island	151,939,449		62,552,809	35.84%	17,540,604	32.18%	549,671	-48.41%	7,957,954	68.70%
South Carolina	169,602,175	4.49%	101,369,541	4.95%	26,649,906	31.36%	7,586,780	35.55%	3,750,614	-63.98%
South Dakota	28,677,300	11.75%	17,677,873	26.35%	4,325,641	11.43%	893,530	-44.71%	3,744,001	58.09%
Tennessee[c]	398,652,983	-3.00%	221,763,755	9.40%	41,055,426	-12.85%	11,509,937	7.69%	N/A	-100.00%
Texas	478,586,609	-2.53%	254,182,298	-1.67%	90,254,911	-6.48%	39,332,099	10.32%	55,198,829	39.22%
Utah	108,474,800	16.54%	48,227,400	5.13%	22,025,600	57.11%	4,365,600	-2.25%	516,400	-91.26%
Vermont	47,206,000	-1.62%	29,123,000	4.53%	13,063,000	19.54%	626,000	-65.80%	830,000	-61.55%
Virginia	103,010,599		59,209,567		46,118,014		13,091,553		0	
Washington	321,639,795	48.31%	143,078,000	42.19%	28,429,960	60.80%	9,269,404	-10.54%	0	-100.00%
West Virginia	121,014,974	12.32%	61,275,902	-17.50%	17,111,957	95.06%	4,981,628	5.71%	0	-100.00%
Wisconsin	295,213,600		177,429,000		72,259,100	13.10%	8,500,000	19.86%	12,100,000	
Wyoming	24,047,235	-1.53%	12,129,702	16.54%	3,744,976	214.84%	904,968	13.30%	357,068	-78.87%
U.S. Total	**$15,608,532,731**	**3.23%**	**$7,103,104,986**	**7.15%**	**$4,335,261,377**	**22.15%**	**$438,322,613**	**0.62%**	**$393,468,074**	**-47.26%**
	N = 43		N = 44		N = 44		N = 43		N = 40	

Table 5 *SFY 1998 State-by-State Data[a] (continued)*

State	SSBG	Change	Medicaid	Change	State Spending	Change	Local Spending	Change	Contracted Services[d]	% of Total
Alabama	$13,725,935	100.39%	$11,249,347	-2.21%	$44,081,900	-5.49%	$17,030	-95.18%	$26,925,825	26.58%
Alaska	0		225,000		10,460,121	-74.35%	0		8,419,199	35.78%
Arizona	9,463,852	623.99%	7,431,650	63.17%	109,207,019	31.28%	0		104,735,590	52.51%
Arkansas[b]	N/A		N/A		23,812,607		N/A		N/A	N/A
California	N/A		25,270,434	19.39%	937,011,463	15.66%	673,803,317	22.09%	47,138,081	1.79%
Colorado	6,352,260	-79.93%	24,122,550	53.84%	131,694,200	93.40%	32,250,000	-4.55%	N/A	N/A
Connecticut	3,521,901		1,184,524		181,490,710	39.97%	N/A		69,964,678	27.15%
Delaware	2,396,625	14.41%	1,114,354	62.79%	20,531,886	-3.58%	N/A		N/A	N/A
District of Columbia	1,619,951	-37.97%	384,074	10.65%	69,056,296	-8.10%	0		17,272,810	15.24%
Florida	83,230,576	19.82%	8,665,650	399.43%	144,389,973	-26.11%	N/A		N/A	N/A
Georgia	20,251,245	-13.57%	16,725,490	0.86%	142,579,000	14.27%	1,896,377	-23.89%	N/A	N/A
Hawaii	N/A		N/A		25,475,996	15.97%	N/A		N/A	N/A
Idaho	11,668,248	23.93%	164,983	161.32%	12,068,671	-13.72%	N/A		N/A	N/A
Illinois	90,600,700	2.80%	58,626,033	-51.34%	784,535,148	-38.46%	0		1,016,860,800	78.20%
Indiana	17,431,485	85.57%	782,472	111.23%	5,566,185	-87.88%	260,652,597	30.07%	N/A	N/A
Iowa	15,476,918	1,305.63%	37,601,448	42.95%	100,650,255	0.17%	N/A		128,511,042	58.77%
Kansas	23,705,309	133.15%	16,007,613	21.09%	52,762,917	-26.72%	N/A		86,443,699	73.60%
Kentucky	24,262,967	-29.85%	0		110,323,423	-29.45%	0		16,238,496	8.54%
Louisiana	29,766,225	-30.84%	0		76,163,857	35.96%	0		12,723,120	6.98%
Maine[b]	N/A		N/A		20,565,752		N/A		N/A	N/A
Maryland	43,877,604	37.11%	9,787,846	71.32%	125,135,718	27.79%	373,765		117,911,289	41.21%
Massachusetts	98,913,537	49.92%	18,011,301	4.36%	269,379,271	-6.59%	N/A		305,111,077	60.03%
Michigan	44,161,400		N/A		187,205,600	0.46%	46,300,000		N/A	N/A
Minnesota	17,355,572	15.80%	27,946,088	-34.52%	77,994,108	121.92%	201,467,407	8.05%	245,497,407	56.25%
Mississippi	11,934,238	-8.76%	N/A		13,936,372	1.66%	N/A		N/A	N/A
Missouri	37,591,804	-7.67%	4,733,710		113,143,902	60.04%	0		N/A	N/A
Montana	0	-100.00%	100,000	-98.19%	22,159,000	104.94%	2,035,000		N/A	N/A
Nebraska	0		N/A		50,277,852	62.08%	N/A		41,127,693	56.71%
Nevada[b]	N/A		N/A		11,700,069		N/A		N/A	N/A
New Hampshire	1,003,264	-46.20%	6,890,167	-49.05%	33,422,507	-26.95%	8,443,174	-4.71%	N/A	N/A
New Jersey	30,040,000	-38.73%	34,616,000	7.45%	240,110,000	-19.48%	N/A		199,362,749	49.51%
New Mexico	6,194,487	-2.11%	8,169,933	57.88%	24,931,100		0		5,151,900	8.03%
New York[b, c]	N/A		N/A		596,725,263		N/A		N/A	N/A
North Carolina	9,367,664	221.41%	1,551		47,074,227	28.05%	54,606,343	23.13%	14,394,020	7.32%

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Table 5 *SFY 1998 State-by-State Data[a] (continued)*

State	SSBG	Change	Medicaid	Change	State Spending	Change	Local Spending	Change	Contracted Services[d]	% of Total
North Dakota[b]	N/A		N/A		8,886,986		N/A		N/A	N/A
Ohio	35,212,535	-23.28%	1,320,503		86,628,791	32.42%	238,505,008	30.70%	N/A	N/A
Oklahoma	14,843,665	7.54%	6,793,000	201.77%	56,960,095	6.74%	0		63,831,118	62.29%
Oregon	18,948,624	14.74%	34,708,639	28.64%	86,151,134	-43.30%	N/A		98,818,534	48.73%
Pennsylvania	11,089,143	17.46%	2,121,255	3.67%	412,404,679	7.46%	178,486,920	-0.94%	N/A	N/A
Rhode Island	0		31,855,888	18.01%	89,386,640		0		67,429,752	44.38%
South Carolina	11,364,048	-4.58%	48,885,859	1.43%	67,689,702	4.44%	542,932	-40.14%	9,397,498	5.54%
South Dakota	4,387,310	54.44%	2,477,767	14.21%	10,999,427	-5.75%	0		449,500	1.57%
Tennessee[c]	26,917,926	-8.81%	126,898,794	34.53%	176,889,228	-15.08%	N/A		251,400,000	63.06%
Texas	26,736,539	-45.97%	32,849,172	-3.21%	219,723,197	-3.87%	4,681,114	18.77%	292,925,417	61.21%
Utah	8,891,200	-35.03%	10,757,300	68.29%	60,247,400	27.63%	0		43,602,700	40.20%
Vermont	3,565,000	-3.98%	8,670,000	15.05%	18,083,000	-10.13%	0		14,658,000	31.05%
Virginia	0		0		21,409,046		22,391,986		N/A	N/A
Washington	40,062,001	98.16%	37,712,909	43.13	178,479,308	53.54%	82,487		101,414,241	31.53%
West Virginia	14,991,331	57.55%	21,759,496	-56.07%	59,739,072	78.51%	0		12,519,667	10.35%
Wisconsin	79,700,000		0		117,784,600		N/A		N/A	N/A
Wyoming	4,517,947	-6.86%	2,083,309	26.15%	11,917,533	-14.95%	N/A		N/A	N/A
U.S. Total	$955,141,036	4.60%	$688,706,109	0.09%	$6,499,002,206	-4.56%	$1,726,535,457	18.53%	$3,420,235,902	36.24%
	N = 38		N = 39		N = 42		N = 24		N = 29	

Source: 1997 and 1999 Urban Institute Child Welfare Surveys.

Note: 0 = state does not use funding stream. N/A = state uses funding stream but could not provide data.

a. U.S. spending totals are based on data from all 51 states. Changes are adjusted for inflation and based on sample sizes noted. Percentage changes left blank could not be calculated because of missing or incomplete data from SFY 1996 or SFY 1998 or because the state did not use the funding source in SFY 1996 or SFY 1998.

b. State did not provide complete data. Federal and state spending calculated from U.S. Department of Health and Human Services claims for title IV-E and allocations for title IV-B, with corresponding state match. TANF, SSBG, Medicaid, local spending, and expenditures on contracted services are reported as N/A.

c. New York total spending taken from 1998 Monitoring and Analysis Profiles; IV-B expenditures represent only IV-B subpart 1 because New York does not participate in subpart 2; Tennessee data, except titles IV-B and IV-E, taken from state Web site.

d. States were asked to provide the total amount of spending from all sources expended on services provided by public and private agencies under contract to the state or local child welfare agency. The total spending on contracted services is based on the 29 states that provided data and spending on contracted services as a percentage of total spending is based on total spending equal to $9.4 billion.

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services. A separate, private or not-for-profit agency monitored by the state or local agency may provide these services. In SFY 1998, states expended $3.4 billion of total child welfare spending on child welfare services provided by contracted agencies. This represents 36 percent of total child welfare spending.[53] States differ in their use of contracted agencies to provide services. The proportion of states' total spending that is contracted out ranges from 2 percent in South Dakota to 78 percent in Illinois, with a median of 40 percent (see table 5).

The Child Welfare League of America (CWLA) reported that in fiscal year (FY) 1996, states expended almost $3.5 billion for contracted services, based on data from 33 states (Petit and Curtis 1997). According to CWLA, contracted services represented 47 percent of the total child welfare budget in FY 1996. The disparity in the two findings is partly due to the different methodologies used to collect the data, as well as the difficulty states experience in reporting expenditures.

Of the 29 states that provided total expenditures for contracted services, 24 were able to categorize how $3 billion was used. States expended $2 billion on out-of-home placements, $153 million on adoption, $168 million on administration, and $627 million on other services.

We were also able to determine the proportion of all funds (i.e., federal, state, and local combined) expended on contracted services by how the funds were used. Expenditures on contracted services for out-of-home placements represent 36 percent of all funds expended on out-of-home placements. Expenditures on contracted services for administration represent 18 percent of all expenditures on administration. Expenditures on contracted services for adoption represent 21 percent of all expenditures on adoption. Expenditures on contracted services for other services represent 51 percent of all expenditures on other services.

As states move to privatization or managed care, we may see increases in expenditures on contracted services.

Conclusions

Our findings document the amount states have spent for child welfare services, the types of funding streams used, the purposes for which funds are used, and shifts that have occurred since welfare reform. Although this paper focuses on national findings, state-level data are provided in table 5. Given the service delivery changes occurring because of the Adoption and Safe Families Act of 1997 and the current discussions in Congress on reforming the federal funding structure, it is important that shifts in child welfare spending continue to be monitored. To meet this need, we plan to collect SFY 2000 expenditure data in 2001. The following is a summary of the major findings from our 1999 survey:

- **States expended at least $15.6 billion on child welfare services in SFY 1998.** Total spending on child welfare services increased 3 percent between SFY 1996 and SFY 1998. It appears that this increase is primarily due to the increase in title IV-E spending. Total federal spending increased 7 percent, even while expenditures from federal funding streams other than title IV-E increased minimally or

decreased significantly. There was minimal change in state spending. Local spending, even though it increased, is still a small portion of total child welfare spending.

- **Child welfare funding is unstable.** Several states reported drastic increases or decreases in spending from federal, state, or local sources. One reason for these drastic changes may be reporting issues. Another reason is the volatility of child welfare funding. Child welfare spending is reactive. A state's spending may change not only because of changes in caseload size, but also because of state legislative mandates, gubernatorial changes, state initiatives, court orders or consent decrees, or as a reaction to a well-publicized child death from abuse or neglect. In addition, states continue to maximize federal funds, which may influence spending from state or local sources, as well as spending levels from the various federal funding streams.

- **Welfare reform's impact on child welfare financing is not clear.** Although individual funding streams may have been affected by welfare reform, the overall impact on child welfare funding is not known. We found little change in SSBG funding and a sharp decline in the use of TANF funds by child welfare agencies. Such spending of TANF funds decreased 47 percent from state fiscal year 1996. Child welfare administrators were initially confused about the use of these funds for child welfare purposes; however, in 1999 it appears that states began to increase TANF spending. Many administrators are still concerned about the availability of TANF funds for child welfare services in the future should there be an economic downturn. Although states reported decreases in TANF funds, it is not known how these decreases affected child welfare clients' access to services. It is also not known what impact the TANF transfers to SSBG had on the availability of SSBG funds for child welfare services. Moreover, the financial impact of the change in SSI eligibility determination is unclear; we were told by state and local administrators, however, that the number of children determined eligible for SSI has declined since 1996. We were also told that allowing the use of IV-E funds for for-profit institutions has had minimal, if any, impact on IV-E spending.[54] Another funding stream that welfare reform may affect as the number of families participating in the Food Stamp program declines is title IV-B subpart 2 (these allocations are based on the average monthly number of children participating in the Food Stamp program).

- **States are increasing their claims for title IV-E funds.** Spending from title IV-E increased 22 percent, while the IV-E-eligible caseload is estimated to have increased 11 percent over the same period. Twenty-two states increased spending from title IV-E by more than 25 percent. These increases seem to be due to the maximization efforts many states have undertaken to increase revenue from federal sources. They may also be due to changes in the needs of the caseload, as well as state initiatives to improve training for staff and foster and adoptive parents.

- **Little funding continues to be targeted for prevention services.** While at least $1.5 billion from all sources was expended on other services—which includes prevention services—we identified $9.4 billion that was spent on maintenance payments and services for children in out-of-home placements. Part of the inconsistency resides in the federal structure for financing child welfare services. Title

IV-E, the largest funding stream targeted for child welfare, is not capped, whereas title IV-B, the federal funding stream targeted for prevention and family preservation services, is. In addition, in SFY 1998, states expended at least $87 million in IV-B funds on out-of-home placements. Moreover, state spending on other services does not seem to be making up for this inconsistency. Spending on out-of-home placements from state funds was at least $3.8 billion; state spending on other services was $609 million. States increased spending on out-of-home placements by 45 percent from SFY 1996 and decreased spending on other services by 66 percent.

- **States' heavy reliance on nontraditional federal funds for child welfare continues.** Expenditures from TANF, SSBG, and Medicaid represent 39 percent of all federal funds expended in SFY 1998. States expended $2 billion from these funds. Even with the significant decline in TANF spending and minimal changes in SSBG and Medicaid spending, the combined funds still represent a portion of federal funds similar to what we found in SFY 1996. The majority of spending identified from these sources in SFY 1998 was used for children in out-of-home placements.
- **Within out-of-home placements, the focus of state-only funds seems to have shifted.** In SFY 1996, states' expenditures on residential care, which is the most costly type of out-of-home care, were greater than on family foster care. In SFY 1998, it appears spending for family foster care increased, while spending on residential care decreased. It is not clear why this shift occurred. One possibility is that states may be shifting some of the costs for children in residential placements to federal funding streams, such as Medicaid, thereby freeing up state funds for other types of out-of-home placements.
- **Reliance on local spending appears to be increasing.** Local spending increased 19 percent between SFY 1996 and SFY 1998, although local spending still constitutes only 13 percent of total spending. This increase in local spending may partly be a reflection of better reporting by the states, but it is also an indication of the reliance on local funds for child welfare services. This finding raises the issue of inequities between localities. The amount of revenues available to a locality is typically determined by property taxes. Localities with higher property values will presumably have more revenue available to provide child welfare services. Localities with lower property values will presumably have less revenue. If localities are forced to rely more heavily on local funds, service availability for families and children in localities with lower property values may be negatively affected.
- **States expended at least $3.4 billion on contracted services in SFY 1998.** Expenditures on contracted services represented 36 percent of total child welfare expenditures.[55] However, as states move toward privatizing certain services and relying more on community-based services, we expect to see an increase in expenditures on contracted services.

Discussion

Flexible Funding

As the last safety resort for our nation's most vulnerable children, child welfare systems are expected to accomplish several goals while facing many challenges, one of which is navigating the complex federal structure financing child welfare services. Policymakers, researchers, and advocates have all criticized the existing federal child welfare financing structure as being inflexible and too heavily focused on out-of-home placement at the expense of prevention. The federal system is not in alignment with the goals of protecting children and providing stable, permanent placements. The largest funding stream targeted for child welfare, title IV-E, provides an open-ended reimbursement to the states for costs associated with the out-of-home placement of eligible children, while title IV-B, the federal funding stream for prevention and family preservation services, is capped.

On the basis of the current financing structure, many have argued that states have little financial incentive to move children out of foster care into more permanent placements. When states achieve the desired goal of permanency for a child, the savings of removing that child from foster care return to the federal government, rather than remaining with the state. For example, when IV-E-eligible children are reunified with their parents, the state no longer receives IV-E funds for these children. The federal government keeps the savings associated with these desired outcomes—hence the possible incentive for states to place and maintain children in foster care.

Others disagree with the notion that states have a financial incentive to keep children in foster care, because states share in the costs of providing for these IV-E-eligible children. It costs states 17 to 50 cents for each federal title IV-E dollar expended. For children who are not title IV-E eligible, state funds may be covering all costs associated with their care. Children are placed and linger in foster care because states do not have enough money for prevention, family preservation, and reunification services. Explicitly stated, the assertion is that child welfare systems are designed to respond to children's and families' needs as resources are available, but not enough resources are available for services to prevent out-of-home placements. Given this debate, there has been a push for more flexibility in the federal financing structure and more federal resources to prevent placements.[56]

There are also state- and local-level initiatives, such as managed care programs and greater reliance on neighborhood-based child welfare services, to remove the perceived incentive for lengthy stays in placement and improve outcomes for children.

Maximization Efforts

The debate on flexibility in the use of title IV-E funds must be considered within the larger context of child welfare financing. States have an incentive to maximize funds from federal sources before using their own funds, and states will first seek uncapped federal dollars before using capped federal allocations. They will also seek

funds that do not require a state match before using funds that do. For instance, SSI and title IV-E are both uncapped programs. States have an incentive to determine children in foster care to be SSI eligible because this federal program does not require a state match for the funds received, whereas IV-E funds do require a state match. After seeking uncapped federal dollars, states may seek to use categorical funding streams, such as Medicaid, which can be used for child welfare purposes only to cover certain costs. Next, states may seek to use a capped funding stream that gives them limited flexibility in determining how to use the funds before using capped allocations that allow states more flexibility. States will use limited-flexibility funds first because the more flexible funds provide a buffer or safety net for other expenses that may arise near the end of a fiscal year when funding is running out. For example, title IV-B is a capped allocation consisting of two parts that states can use for certain types of preventive, family preservation, and reunification services within specific guidelines. TANF and SSBG, two block grants to the states, are also capped allocations, but they give the states more freedom in determining what services to provide with these funds.

So what does this mean for child welfare financing? One finding from this survey is that states are making great efforts to maximize IV-E funds. However, states appear to be at different stages in maximizing IV-E funds, and as maximization efforts continue, states will see diminishing marginal returns, requiring them to seek additional federal funding streams to supplement their resources. We found that states are taking advantage of the availability of these nondedicated funding streams (TANF, SSBG, and Medicaid) for child welfare services; however, the use of these funds is targeted for out-of-home placements, and funding for prevention still lags. As states begin and continue to maximize funds from these nondedicated federal funding streams, they will see diminishing marginal returns on these efforts and eventually hit a plateau, forcing them to find more efficient, cost-effective methods to serve child welfare clients.

Future Changes

Future changes that may affect child welfare financing are the potential creation of title IV-B subpart 3[57] and the reauthorization of TANF and title IV-B subpart 2. In addition, the Adoption and Safe Families Act of 1997 and the Foster Care Independence Act of 1999 are changes that may affect future child welfare financing.

Under ASFA, $20 million is authorized annually in federal fiscal year (FFY) 1999 through FFY 2003 to provide incentive payments to states to increase the number of adoptions of children in foster care. This amount was increased to $43 million in FFY 2000 because the original amount was not adequate to cover the incentive payments requested by states. The incentive payments equal $4,000 for each finalized adoption of a child in foster care above a baseline established by the U.S. Department of Health and Human Services for each state, and $6,000 for each adoption above the baseline of a special needs child in foster care. In attempts to reach or exceed these baselines, spending on services for adoptive families and administrative costs associated with adoption (e.g., training) may increase.

As part of the 1999 Foster Care Independence Act, funding for title IV-E Independent Living was increased to $140 million per year for five years and the method of calculating the nonfederal match was simplified to a 20 percent state match for states to receive their full share. In addition, the act changed the basis for determining each state's share; shares are now based on each state's proportion of children in foster care during the most recent fiscal year, for which data are available.

Even though we have been able to answer several questions we set out to answer, some questions still remain. For example, it is not clear what impact welfare reform has had on child welfare funding overall. There was a significant decrease in TANF spending but minimal change in SSBG spending. It is not known whether cuts in SSBG spending were compensated for by TANF transfers to SSBG. Moreover, it is not clear whether states were able to make up for any losses in funding that resulted from welfare reform cuts with increases in IV-E funds.

Independent of welfare reform, questions persist concerning states' decisionmaking processes in determining what federal funding streams to use and for what purposes. In addition, it is not known how any changes in funding affected the availability of services for child welfare clients or outcomes for children. For example, during welfare reform discussions, concern was raised about the competition for child care services that might occur between TANF clients and child protective services clients. It is not known if child welfare spending for these purposes has declined because of changes in child care funding resulting from welfare reform or if child protective services clients have reduced access to these services.[58]

To attempt to answer some of these questions and continue monitoring states' child welfare spending, we intend to collect SFY 2000 data in 2001. We intend to collect similar data to expand our knowledge of states' expenditures for child welfare services; provide a more informed look at the impact of welfare reform on child welfare financing; enhance our understanding of states' decisionmaking processes; and examine the impact ASFA may have had on the use of funds.

Notes

1. For the purposes of this study, the District of Columbia is considered a state.

2. Our reported finding was that states expended $14.4 billion on child welfare in SFY 1996; however, several states made corrections to their 1996 data when completing the 1999 survey.

3. Between 1991 and 1996, many children were determined SSI eligible based on the individual functional assessment. States have an incentive to have children receive SSI benefits instead of foster care payments, because unlike title IV-E foster care funds, states are not required to match federal SSI funds.

4. See Geen et al. (1999) for more detailed methodology. One change in the methodology between the two rounds is that the 1999 survey differentiated federal spending by function, including out-of-home placement, adoption, administration, and expenditures for other services. The 1997 survey contained similar instructions; however, states were instructed to include administrative expenditures from federal sources with federal expenditures for other services.

5. This reflects the total of all expenditures reported by the 48 responding states, including the title IV-E claims and title IV-B allocations (and corresponding state matches) for the nonresponding states. In SFY 1996, states reported expending $14.6 billion in total child welfare spending.

6. We are presenting percentage changes adjusted for inflation throughout the paper. The percentage change in total child welfare spending between SFY 1996 and 1998 is based on data from 43 states.

7. Only 30 states were able to provide a total for federal, state, and local expenditures; however, 15 additional states that were not able to provide a total for local expenditures were included in the analysis because they are state administered and the amount of spending that occurs on the local level is assumed to be minimal in this type of structure. For SFY 1996, 31 states could provide such totals; federal funds accounted for 44 percent of total spending, state funds for 44 percent, and local funds for 13 percent.

8. This does not include Arkansas, Maine, Nevada, New York, North Dakota, or Wisconsin, which provided either no data or incomplete data.

9. States reported expending at least $6.5 billion in federal funds in SFY 1996.

10. This includes titles IV-E and IV-B, Medicaid, SSBG, TANF, and other federal funds (e.g., Children's Justice Act grants and Child Abuse and Neglect grants). SSI data were not required for a state to be included in this analysis.

11. By dedicated we mean funding streams created primarily for child welfare activities.

12. A child's eligibility for IV-E is linked to his or her family's eligibility for the Aid to Families with Dependent Children (AFDC) program as in effect in the state on July 16, 1996. PRWORA repealed AFDC and created TANF, yet IV-E eligibility is still linked to the AFDC program.

13. Special needs children must be AFDC or SSI eligible to qualify for federally matched adoption assistance payments. Section 473(c)(2) of the Social Security Act defines a special needs child as a child with "a specific factor or condition (such as his ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) because of which it is reasonable to conclude that such child cannot be placed with adoptive parents without providing adoption assistance under this section or medical assistance

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under title XIX...." States have discretion in defining special needs (e.g., may include religion) and determining eligibility.

14. Providing services to youth age 18 to 21 or those not IV-E eligible is an option for the states.

15. We initially reported that states expended a total of $3.3 billion in title IV-E funds in SFY 1996; however, states' revisions to their 1996 data increased the total to $3.6 billion.

16. Based on estimated caseload data and federal funding for title IV-E data. There is variation among the states regarding changes in foster care caseloads.

17. Percentage changes reported within IV-E programs are based on 37 states.

18. In SFY 1998, states expended $1.4 billion on title IV-E foster care administration, $181 million for training, and $124 million on SACWIS.

19. Thirty-three states were able to identify expenditures for these activities in SFY 1998.

20. Based on interviews with child welfare administrators and data analysts at the state and local levels in 13 states as part of the ANF child welfare case studies.

21. States expended $136 million for adoption administration and $20 million for training. Expenditures reported for adoption payments include nonrecurring costs.

22. As part of the Foster Care Independence Act of 1999, the program was renamed the Chafee Foster Care Independence Program, and funding for the program was increased to $140 million per year for five years. The state match has been simplified to a 20 percent match for states to receive their full share of the funds. The method of allocating state shares is now based on each state's share of the nation's foster care population in the most recent year for which data are available. The act also allows states to extend Medicaid coverage to former foster children age 18 to 21 and does not specify a minimum age before which children can receive independent living services.

23. Change is based on 37 states. In SFY 1996, we identified $57 million in IV-E Independent Living expenditures.

24. Six states reported not using Independent Living funds in either or both SFY 1996 and SFY 1998.

25. Changed from Family Preservation and Family Support by the 1997 Adoption and Safe Families Act (ASFA). ASFA also reauthorized the program with increases each year in the entitlement ceiling, from $255 million in federal fiscal year (FFY) 1998 to $305 million in FFY 2001.

26. In the 1997 survey we asked states to provide IV-B expenditures by subpart, which we did not in the 1999 survey; therefore, IV-B expenditures are presented as one total. Percentage change in IV-B spending is based on 43 states.

27. In SFY 1996, these funds combined totaled $2.6 billion and represented 42 percent of all federal funds.

28. Virginia reported that these funds are not used for child welfare purposes. Rhode Island reported that SSBG funds are not used for child welfare; therefore, this percentage includes only expenditures from Medicaid and TANF.

29. States must spend at least 75 percent of what they spent in fiscal year 1994 to meet the maintenance of effort requirement; 80 percent if the state does not meet the work requirements. Two of the seven

programs that make up the TANF block grant require a state match: the welfare-to-work formula grant and the contingency fund.

30. The four purposes of the TANF program are to "(1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (4) encourage the formation and maintenance of two-parent families." Section 401(a) of the Social Security Act.

31. This includes TANF expenditures for former EA purposes (TANF-EA), other child welfare programs not formerly funded under EA, and funds used to assist relative or kinship caregivers. Examining the states' TANF expenditures for former EA purposes only, states expended $337 million in SFY 1998, 54 percent less than expended in SFY 1996 ($797 million) based on 39 states.

32. Based on interviews with child welfare administrators at the state and local levels in 13 states as part of the ANF child welfare case studies. In addition, see Greenberg (2000).

33. Twenty-five states reported expenditures for TANF, and 10 states that use TANF for child welfare activities were unable to provide these expenditures for SFY 1998. Sixteen states reported that TANF funds were not used in SFY 1998 for child welfare.

34. In North Carolina, Texas, and Pennsylvania, TANF funds were the second most heavily used federal funding stream after title IV-E. In Idaho and South Dakota, TANF was the third most heavily used funding stream.

35. In Texas, TANF expenditures for out-of-home placements are the second largest funding stream after title IV-E.

36. In Idaho, TANF expenditures for administration are the second largest funding stream after SSBG.

37. Thirty-nine states provided SSBG expenditures, 7 states reported using but could not provide data on SSBG expenditures, and five states reported that SSBG funds were not used for child welfare in 1998. The analysis on changes in states' SSBG expenditures is based on 38 states that provided SSBG data in both rounds of the survey. Rhode Island is included in this analysis because the state reported not using SSBG funds for child welfare in both 1996 and 1998. One point to note is that when comparing data from all 51 states, states reported expending more in SFY 1996 ($980 million) than the total identified in SFY 1998.

38. PRWORA allows the states to transfer up to 30 percent of their TANF block grant to SSBG and the Child Care and Development Block Grant; however, no more than 10 percent may be transferred to SSBG. In 10 states, in interviews with child welfare administrators as part of the ANF child welfare case studies, we were told that the state transferred TANF funds to SSBG.

39. This does not include Mississippi and Oklahoma, which could not provide all the federal data requested.

40. Thirty-eight states reported Medicaid expenditures for SFY 1998. Nine states use Medicaid but could not provide expenditure data, and four states reported not using Medicaid.

41. Based on 21 states that were able to categorize how all federal funds were used.

42. Based on interviews with state and local child welfare administrators as part of the ANF child welfare case studies.

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43. States frequently reported using these funds: Children's Justice Act grants, National Center on Child Abuse and Neglect grants, Child Abuse Prevention and Treatment Act grants, and the Child Care and Development Block Grant.

44. Based on 43 states that provided data in both rounds.

45. No percentage changes between SFY 1996 and 1998 are given because of the small number of states that were able to provide all the required data for this analysis in both rounds of the survey.

46. Based on the 16 states that could break out the use of all federal funding streams, with the exception of TANF and "other" federal funds, we determined the proportion of federal funds used for out-of-home placements, adoption, administration, and other services. States expended 67 percent of federal funds on out-of-home placements, 9 percent on adoption, 9 percent on administration, and 16 percent on other services.

47. The percentage change is based on 42 states that provided data in both rounds of the survey. In SFY 1996, states expended $6.3 million in state funds, a revision from the $6.4 million that was initially reported in our paper.

48. Percentage changes are based on 25 of the 30 states that provided state expenditure data for out-of-home placement, adoption, administration, and other services in both rounds of the survey.

49. Title IV-E funds cannot be used to care for children who may be placed in institutions whose primary purpose is the detention of delinquents. Therefore, state funding must be used for children in child welfare custody placed in a detention/correctional facility. These child welfare expenditures on correctional facilities may represent the administrative costs associated with child welfare caseworkers' duties and responsibilities for cases that are still the child welfare agency's responsibility even while the child is in a detention facility.

50. Comparisons with SFY 1996 are based on a sample size of 23 states that provided data in both rounds of the survey. Comparisons are not provided for correctional facilities, independent living, or other placements because of the small number of states (14) that were able to provide data in both rounds.

51. The percentage change is based on 24 states that provided a total for local expenditures in both rounds of the survey. Including data from all 51 states, local spending increased 8 percent. Twenty-eight states reported zero dollars in local funds expended, 17 states reported expending local funds, and 6 states were unable to provide data for SFY 1998.

52. Unfortunately, analysis of the change in the use of local funds between the two rounds of the survey was not possible because of the small sample size.

53. Based on the 29 states that provided a total for expenditures on contracted services, total child welfare spending in this case is $9.4 billion. Expenditures on contracted services represent 22 percent of total child welfare spending when including data from all 51 states, and total child welfare spending is $15.6 billion. Twenty-two states were unable to provide expenditure data.

54. Based on interviews with state and local administrators in 13 states as part of the ANF child welfare case studies.

55. Based on the 29 states that provided expenditures on contracted services.

56. One bill recently introduced in Congress would allow states more flexibility in using title IV-E funds and would expand the title IV-E waiver demonstrations.

57. There are currently bills in the House and Senate that would create title IV-B subpart 3 to provide $2 billion over five years for collaborative activities among federal, state, and local child welfare agencies and substance abuse prevention and treatment agencies.

58. PRWORA combined the four main federal funding streams for child care, including the At-Risk Child Care program for child protective services clients, into the Child Care and Development Block Grant (CCDBG). It is not known whether child welfare agencies experienced decreases in their funding specifically for child care for child protective services clients as a result of the block grant. Child protective services clients are still eligible for child care subsidized through the CCDBG and TANF if they meet the income requirements, as well as through SSBG.

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